



EXTEND 529 SAVINGS PLANS TO HOMESCHOOL EXPENSES

Under current law, 529 savings plans allow parents and students to save and use money for college without the earnings being subject to federal taxes. The Tax Cuts and Jobs Act (TCJA)¹ expanded 529 plans to include K-12 private school tuition.

Parents should have maximum flexibility in choosing where their children are educated. As such, 529 plans should be expanded to also include homeschooling expenses.

BACKGROUND

529 college savings plans,² named after Section 529 of the Internal Revenue Code and considered a Qualified Tuition Program (QTP), were created in 1996 to encourage savings for future higher education costs. These plans are sponsored by states or educational institutions and enjoy federal tax-free earnings and withdrawals.

There are two types of 529 plans, prepaid tuition plans and education savings plans:

- **Prepaid tuition plans** are generally sponsored by state governments and have residency requirements.
- **Education savings plans** are investment accounts for the beneficiary's future qualified education expenses at any college or university.

All states and the District of Columbia have at least one type of 529 plan. Some states also allow taxpayers to deduct any contributions when they file their yearly taxes.

Because of the TCJA,³ families can now use up to \$10,000 per year per child of their 529 savings plans for “tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.”⁴

During Senate consideration of TCJA, Sen. Ted Cruz (R-TX) offered an amendment to expand 529s to include K–12 public, private, and religious school tuition, as well as homeschool expenses. Vice President Pence cast the tiebreaking vote during adoption of the Cruz amendment. Ultimately, Senators Bernie Sanders (I-VT) and Ron Wyden (D-OR) challenged the homeschool portion of the amendment under the Byrd Rule⁵ and succeeded, thus stripping out the 529 expansion for homeschool expenses.

530 savings plans⁶, also known as Coverdell Savings Accounts, do permit spending on homeschooling expenses, but they must be funded with after-tax dollars and contributions may not exceed \$2,000 annually. Further expanding 529s to cover homeschooling expenses would make 530 plans unnecessary.

POLICY SOLUTIONS

Congress should pass Student Empowerment Act (H.R. 605) which would include expenses in connection with a homeschool as eligible expenses under a 529 plan.

Now that 529 accounts can be used for K-12 expenses, Congress should streamline the tax code by eliminating Coverdell Savings Accounts.

Publ. 2019 (updated November 18, 2021).

¹ The Tax Cuts and Jobs Act of 2017(TCJA), Pub.L. 115–97, 131 Stat. 2054 (2017).

² 26 U.S.C. § 529.

³ TCJA, *supra*, note 1.

⁴ *Id.*

⁵ The Byrd Rule restricts elements of reconciliation legislation, the vehicle for TCJA, by prohibiting “extraneous” provisions. See, Bill Heniff Jr., Cong. Research Serv., RL30862, The Budget Reconciliation Process: The Senate’s “Byrd Rule” (2016).

⁶ 26 U.S.C. § 530.